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CIVIL SERVICE RETIREMENT FINANCING AND BENEFITS

April 23, 1969.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Daniels of New Jersey, from the Committee on Post Office and Civil Service, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 9825]

The Committee on Post Office and Civil Service, to whom was referred the the bill (H.R. 9825) to amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

Purpose of H.R. 9825

The major purpose of the legislation is to improve the financing and funding practices of the civil service retirement system, so as to maintain confidence in the soundness of the retirement fund and to assure that the necessary money is available when needed to pay the annuities of Government's retirees and survivor annuitants in full and on time.

It is also the purpose of this legislation to provide certain limited, but needed, improvements in the benefits structure of the system within the limits of the new financing approach.

BACKGROUND

During the past 1½ years the Subcommittee on Retirement, Insurance, and Health Benefits of the Committee on Post Office and Civil Service has devoted its full time and attention, in extensive public hearings, executive sessions, and conferences with the official representatives of agencies of the executive and legislative branches, to a searching review of the financial condition of the civil service retirement system—a program which is a vital part of the Federal employment system, and one of paramount importance to the Government's millions of retired, active, and future employees and their families.

The subcommittee's aim was to attempt to recognize the problems resulting from past and present funding practices, to resolve any doubts of the system's financial integrity, and to develop a definite plan of action to insure its ability to fulfill its obligations. The results of the indepth study most assuredly attest to the fact that any doubt which exists as to the system's ability to meet future commitments is attributable to funding practices that have been grossly inadequate since the program's very inception in 1920.

Federal employees have always contributed the full amount set by law, but, while the Government has contributed substantial sums to the trust funds, it has failed to appropriate regularly and systematically, on a concurrent basis, sufficient funds to meet the ultimate costs not covered by employees' contributions. In past years several methods for determining appropriations to meet the Government's obligation to the system have been considered, and some were adopted. However, attitudes of various administrations, Congresses, and committees have changed from time to time, but facing the problem realistically has been long delayed.

In the 90th Congress the committee directed its energies to the problem by reporting to the House the bill H.R. 17682, the financing features of which were the product of a common effort based, in part, on the recommendations of the former Chairman of the U.S. Civil Service Commission, as contained in his letter of June 8, 1967, and embodied in H.R. 10912; the Comptroller General of the United States, as contained in his report (B–130150) to the Congress of April 24, 1967; and the joint proposal of those officials, as set forth by the former Chairman of the Civil Service Commission in his letter of March 22, 1968.

These letters of transmittal are appended under the heading "Agency Reports."

While H.R. 17682 was passed by the House without a dissenting vote on October 1, 1968, no action was taken on the measure by the Senate.

Statement

EXECUTIVE AND LEGISLATIVE RECOMMENDATIONS

Retirement system financing has been a problem of continuing concern to the Congress, to its respective committees, and to officials of the executive branch. The history of actuarial reports has indicated successively for a long time past an increasingly pessimistic view with respect to actuarial costs and liabilities under the escalating benefits and other liberalizations in the specifics of the civil service retirement program. The financing provisions of H.R. 9825 are based, for the most part, upon the recommendations of the U.S. Civil Service Commission, as set forth in the present Chairman's letter of March 18, 1969 on H.R. 770, and in the Bureau of the Budget's letter of March 19 1969, which also appear under the heading "Agency Reports."

PAST RETIREMENT SYSTEM POLICIES AND PRACTICES

Since its enactment in 1920, the Civil Service Retirement Act has made provision for mandatory employee retirement system contributions to be held in trust in the civil service retirement and disability fund. Expressed as a percentage of salary withheld, employee contributions have increased, by amendment to the act, from the original 2½ percent to the current 6½ percent that became effective in 1956. During the entire history of the civil service retirement system, employee contributions have approximated one-half the normal cost.

In contrast to the specific requirements covering employee contributions, the act, prior to 1958, contained a statement to the effect that the Government's share would be financed by the submission of appropriation estimates necessary to finance the system "* * * and to continue this act in full force and effect." As a result, a number of methods for determining appropriations to cover the Government's share of costs have been used during this period of nearly 48 years. In the first 8 years, appropriations were neither recommended nor enacted, and benefit disbursements were financed by employee contributions to the fund. From 1929 to the World War II period, appropriations were generally recommended on a basis sufficient to cover normal cost and to amortize the unfunded liability by the end of the century. From 1929 through 1949, enacted appropriations coincided with Presidential recommendations.

In the 8-year period 1950–57, appropriations based on several different methods were recommended by the President. The Congress enacted lower appropriations on five occasions, higher amounts twice, and on one occasion approved the amount proposed. The budget recommendation for the fiscal year 1953 was based on normal cost plus amortization over a 30-year period and was reduced somewhat by the Congress. Recommendations for appropriations to cover normal cost plus interest for each of the years 1950, 1951, 1952, and 1954 were reduced by the Congress. A recommendation for 1955 to cover only the additional cost of annuities increased by a then-recent enactment was approved by the Congress. On the other hand, requested appropriations for 1956 and 1957, computed on the basis of the Government's share of costs for current disbursements less the interest on its equity in the fund, were increased.

The present method of financing was recommended by the Civil Service Commission and enacted by the Congress in the Civil Service Retirement Act Amendments of 1956 (Public Law 84–854), effective at the beginning of fiscal year 1958. Under it, each employing agency contributes to the fund, from its appropriations for payment of salaries, amounts equal to deductions from the salaries of its covered employees at the rate of 6½ percent, and the rate is 7½ percent for Members of Congress. Adoption of the agency contribution provision achieved the desirable objective of assuring annual income approximating normal cost.

However, agency matching contributions are not sufficient to meet fully the Government portion of retirement cost, because no significant provision is now being made toward the unfunded liability or even toward the interest on it. In recognition of this fact, the Congress provided in section 17(e) of the 1956 amendments (now sec. 8348[f] of title 5, U.S.C.), that the Commission submit estimates of the appropriations necessary to finance the fund on a normal cost-plus-interest basis. The Congress did not, however, require automatic appropriation of amounts so estimated, leaving final determination of amounts to be recommended for this purpose to the discretion of the President. Accordingly, the Commission's estimates have been forwarded to the Bureau of the Budget for consideration as part of the normal process of formulating the executive budget. The President's final determination has been made only after consideration of the financial status of the system, including its unfunded liability, in the light of the general fiscal situation of the Government. This procedure is in keeping with the tradition of executive development of the budget.

The President did not request an appropriation to the retirement fund in his budgets for the fiscal years 1959 and 1960, beyond the amounts to be appropriated to the various agencies. For the fiscal year 1959, Congress voted an appropriation to the fund of $589 million more than the agencies' contributions included in the President's budget. This amount plus employee and agency contributions equaled full normal cost plus interest. The President vetoed this bill, and Congress accepted his view.

For the fiscal years 1961 and 1962, appropriations were made to the fund for the specific purpose of continuing in effect certain annuity increases and new survivor benefits provided by Public Law 85–465; for the fiscal year 1963 and each fiscal year thereafter, appropriations have been requested and made to cover the benefits provided by Public Law 87–793. Otherwise, no appropriations beyond the matching agency contributions have been made.

The establishment of the civil service retirement fund suggested the intention that primary dependence for meeting benefit obligations would rest on contributions and investment income rather than on "the full faith and credit of the United States." However, it is now generally accepted that Federal staff retirement systems, backed by the credit of the United States, need not accumulate reserves on the basis required of private pension plans. Reflecting the interaction of political, socioeconomic, and fiscal considerations, national policy, rather than concepts of actuarial practice, has played the controlling role in final funding decisions. Therefore, the extent to which reserves are accumulated under a Federal retirement system, and its actuarial soundness, cannot be appraised on the same basis as in private plans.

The historical pattern of employee-employer contribution to the retirement fund supports the conclusion that deficiencies; that is, accrued liabilities for which contributions to the fund have not been made (unfunded liability), are the responsibility of the Government as employer. The major causes of such deficiencies have been—

(1) creditable service for which neither the employee nor the employer contributed,

(2) general wage increases which result in benefits based on a higher pattern of salaries than that upon which at least a portion of contributions is based,

(3) liberalizations applying to benefits based on past and/or future service without a commensurate increase in contributions, and

(4) loss of compounded interest income which would have been earned if the accrued liability had been fully funded.

Prompted in part by the recommendations of the Kaplan committee[1] and in part by a recognized need for a more orderly system of Government contributions, legislation was enacted in 1956 which increased employee contributions to 6½ percent of salary and required each agency to transfer an equal amount from its appropriations to the retirement fund. The combined contribution rate of 13 percent was estimated to be slightly less than the normal cost at that time. Although, as indicated, the unfunded liability has continued to increase, the current Government contribution of 6½ percent of payroll has nevertheless resulted in a considerably larger payment to the fund than did the direct appropriations of prior years. In addition, under normal-cost financing there is now a more accurate reflection of personnel service costs in the annual administrative budget.

In the meantime, the philosophical underpinning of retirement benefits in the private sector of the economy has evolved from a gratuity for "long and faithful service" to what employees have come to consider an earned right. Under the civil service retirement system, the establishment of a trust fund in the tradition of private insurance and/or pension plans (but with an investment portfolio limited to the national debt) coupled with mandatory employee contributions has further bolstered the concept of an earned right to benefits and an employee equity in the fund.

None of the several methods of financing proposed from 1920 through 1957 provided for an automatic reflection of the Government's share of retirement costs in annual appropriations. Because employee contributions annually exceeded benefit payments, the expansion of Federal employment during the 1930's and 1940's further obscured the potential impact of an ever-increasing unfunded liability. However, the stabilization of employment during the early fifties, combined with sporadic and inadequate employer contributions, made it apparent that as the system matured, annual trust fund revenues would soon be less than benefit payments.

For the reasons listed above, the deficiency of the fund rose from an estimated $20.4 billion in 1953 to $27.5 billion in 1958, and, after 5 years of funding normal costs only (approximate), to $37.7 billion by the end of fiscal year 1963. On June 30, 1965, the deficiency was about $40 billion and, because of recently enacted pay and annuity increases, it is now expected to reach a level of $57.7 billion by the end of the fiscal year 1969.

The following table shows the progress of the fund from its inception in 1920 through fiscal year 1968:

[1] The Committee on Retirement Policy for Federal Personnel, created by Public Law 82-555. (See S. Doc. 89, 83d Cong.)

CIVIL SERVICE RETIREMENT AND DISABILITY FUND—OPERATING RECEIPTS AND DISBURSEMENTS AND BALANCE IN THE FUND FOR THE FISCAL YEARS 1921 TO 1968

[Cents omitted; therefore details may not add to totals]

Fiscal year ended June 30	Receipts: Salary deductions, voluntary contributions, and service credit payments	Receipts: Government appropriations and/or agency contributions	Receipts: Interest and profit on investments	Receipts: Total receipts	Disbursements: Payments to retired employees	Disbursements: Payments to survivor annuitants	Disbursements: Payments of refunds and death claims	Disbursements: Administrative expense	Disbursements: Total disbursements	Transfers from (+) to (−) other retirement systems	Balance in fund June 30
1921–28	$142,729,500		$13,211,143	$155,940,643	$51,032,215		$21,923,168		$72,955,384		$82,985,259
1929–35	208,291,396	$145,450,000	57,360,736	411,102,133	185,158,325		35,731,558		220,889,883	−$1,467,800	271,729,708
1936–40	186,851,456	321,843,280	82,147,062	590,841,798	272,080,148		37,366,674		309,446,822	−3,162	553,121,521
1941–45	926,000,895	671,241,799	214,024,652	1,811,267,346	351,846,148		136,235,709		488,081,858	−79,358	1,876,227,651
1946–50	1,451,079,693	1,243,583,880	551,909,068	3,246,572,642	615,912,850	$8,387,864	679,574,736		1,303,875,451	+23,304,509	3,842,229,352
1951	374,872,990	307,117,455	164,561,022	846,551,467	185,421,904	10,897,666	72,534,135		268,853,707		4,419,927,112
1952	414,782,450	312,776,021	188,130,280	915,688,752	203,625,518	16,079,596	78,879,612		298,584,727		5,037,031,138
1953	420,034,454	325,304,154	214,609,442	959,943,051	246,711,418	23,472,466	91,023,429		361,207,314		5,635,771,876
1954	425,000,000	35,303,239	225,654,018	685,957,288	281,560,565	29,445,478	98,118,629		409,124,673		5,912,604,490
1955	440,284,878	33,678,729	234,377,235	708,340,843	310,280,639	34,858,748	82,655,739		427,795,126		6,193,150,207
1956	570,616,475	237,252,793	211,829,113	1,019,898,383	366,320,273	44,034,630	94,082,162		504,437,066		6,708,611,524
1957	640,522,470	530,632,662	220,793,978	1,391,949,112	425,645,499	53,021,114	109,522,080		588,188,694		7,512,371,942
1958	675,098,086	583,942,744	194,052,071	1,453,092,902	507,606,149	62,491,630	126,511,408		696,609,189		8,268,855,655
1959	761,722,957	754,129,236	219,749,314	1,735,601,507	601,050,915	84,501,208	106,063,345		791,615,469		9,212,841,693
1960	760,195,742	749,498,975	251,124,061	1,760,818,780	668,435,682	98,595,756	125,923,047		892,954,486		10,080,705,987
1961	855,640,591	890,192,793	281,633,944	2,027,467,328	736,741,184	111,198,621	115,071,522		963,011,328		11,145,161,987
1962	863,512,529	895,896,163	322,888,251	2,082,296,944	813,290,084	123,574,453	124,125,796		1,060,990,335		12,166,468,596
1963	933,943,173	950,852,817	362,290,266	2,247,086,257	914,105,941	141,051,575	120,610,355		1,175,767,871		13,237,786,982
1964	994,477,989	1,041,941,019	419,853,966	2,456,272,975	1,032,238,017	163,473,563	123,930,849		1,319,642,431		14,374,417,526
1965	1,066,846,060	1,115,356,476	482,170,944	2,664,373,481	1,126,017,513	181,532,265	130,119,909		1,437,669,688		15,601,121,319
1966	1,112,559,914	1,164,453,174	546,357,597	2,823,370,686	1,322,108,789	209,244,443	157,136,201	$42,821	1,688,532,255		16,735,959,750
1967	1,205,539,542	1,263,531,809	625,164,699	3,094,236,050	1,532,503,400	256,139,488	176,211,361	4,581,943	1,969,436,194		17,860,759,607
1968	1,335,704,199	1,389,281,093	799,455,331	3,434,440,624	1,665,296,697	291,331,382	176,960,791	4,101,467	2,137,690,328		[1] 19,157,509,900
Total	16,766,507,478	14,963,260,321	6,793,348,204	38,523,116,004	14,414,989,884	1,943,331,956	3,020,312,216	8,726,231	19,387,360,289	+21,754,187	

[1] This balance is not a surplus. It is estimated that, as of June 30, 1968, the unfunded liability of the civil service retirement system was $52,608,000,000. This figure does not include any amount for benefits provided by pt. III of Public Law 87–793; if such benefits were considered, the figure given would be increased by $2,283,000,000. The foregoing figures do not include the increase in unfunded liability resulting from general pay increases effective in July 1968. The estimated normal cost of the system is 13.60 percent of payroll exclusive of pt. III of Public Law 87–793 which, if considered, would increase this figure by 0.26 percent of payroll.

CURRENT AND PROJECTED COST OF PRESENT SYSTEM

Upon full implementation, in July 1969, of the latest salary statute, the deficiency is expected to exceed $61 billion. It is further estimated that under present funding practices the assets of the fund—currently $20½ billion—will increase to $23 billion within the next 6 years, while the deficiency will simultaneously approach $80 billion.

However, in 1975 the disbursements will then begin to exceed the annual income of $3.8 billion. Disbursements thereafter will continue to escalate appreciably over a relatively static income, and result in a declining fund balance. Consequently, to meet benefit payments, all disbursements in excess of current income will have to be met from the fund balance. Without additional funding, that balance will be totally exhausted by 1987. Immediately thereafter, disbursements will exceed income by $3½ billion, and will require direct appropriations to meet benefit payments. During ensuing years progressively higher amounts would be required until, at the turn of the century, the necessary direct appropriations would approach $5 billion. It is emphasized that these substantial sums will be in addition to the approximate $3 billion income received by the trust fund from then-active employee and agency contributions.

The following, table A, shows the estimated progress of the retirement fund under present financing practices:

TABLE A.—CIVIL SERVICE RETIREMENT SYSTEM—ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS MATCHING EMPLOYEE DEDUCTIONS AT 6½ PERCENT, PLUS DIRECT APPROPRIATIONS WHEN NEEDED TO MEET BENEFIT PAYMENTS

[In millions]

Fiscal year	Employee deductions and deposits		Government payments							
			Agency contributions							
	Amount	As percent of payroll	Amount	As percent of payroll	Direct appropriations	Interest at 3½ percent	Total receipts	Disbursements	Balance in fund at end of year	Unfunded liability at end of year
1969	$1,543	6½	$1,528	6½	----	----	----	----	$20,616	[1] $65,540
1970	1,543	6½	1,528	6½	----	$724	$3,795	$2,933	21,478	68,192
1971	1,543	6½	1,528	6½	----	750	3,821	3,150	22,149	70,937
1972	1,543	6½	1,528	6½	----	770	3,841	3,371	22,619	73,778
1973	1,543	6½	1,528	6½	----	783	3,854	3,591	22,882	76,718
1974	1,543	6½	1,528	6½	----	788	3,859	3,817	22,924	79,761
1975	1,543	6½	1,528	6½	----	785	3,856	4,043	22,737	82,911
1976	1,543	6½	1,528	6½	----	774	3,845	4,299	22,283	86,171
1977	1,543	6½	1,528	6½	----	754	3,825	4,548	21,560	89,545
1978	1,543	6½	1,528	6½	----	725	3,796	4,788	20,568	93,037
1979	1,543	6½	1,528	6½	----	686	3,757	5,023	19,302	96,651
1980	1,543	6½	1,528	6½	----	637	3,708	5,250	17,760	100,392
1981	1,543	6½	1,528	6½	----	579	3,650	5,485	15,925	104,264
1982	1,543	6½	1,528	6½	----	511	3,582	5,707	13,800	108,271
1983	1,543	6½	1,528	6½	----	433	3,504	5,915	11,389	112,418
1984	1,543	6½	1,528	6½	----	345	3,416	6,108	8,697	116,711
1985	1,543	6½	1,528	6½	----	248	3,319	6,287	5,729	121,154
1986	1,543	6½	1,528	6½	----	142	3,213	6,438	2,504	125,752
1987	1,543	6½	1,528	6½	$1,006	----	4,077	6,581	----	129,546
1988	1,543	6½	1,528	6½	3,647	----	6,718	6,718	----	130,727
1989	1,543	6½	1,528	6½	3,776	----	6,847	6,847	----	131,818
1990	1,543	6½	1,528	6½	3,899	----	6,970	6,970	----	132,822
1991	1,543	6½	1,528	6½	3,999	----	7,070	7,070	----	133,760
1992	1,543	6½	1,528	6½	4,101	----	7,172	7,172	----	134,627
1993	1,543	6½	1,528	6½	4,202	----	7,273	7,273	----	135,421
1994	1,543	6½	1,528	6½	4,304	----	7,375	7,375	----	136,139
1995	1,543	6½	1,528	6½	4,407	----	7,478	7,478	----	136,778
1996	1,543	6½	1,528	6½	4,543	----	7,614	7,614	----	137,301
1997	1,543	6½	1,528	6½	4,662	----	7,733	7,733	----	137,721
1998	1,543	6½	1,528	6½	4,768	----	7,839	7,839	----	138,048
1999	1,543	6½	1,528	6½	4,855	----	7,926	7,926	----	138,298
2000	1,543	6½	1,528	6½	4,928	----	7,999	7,999	----	138,482
2001	1,543	6½	1,528	6½	4,958	----	8,029	8,029	----	138,642

TABLE A.—CIVIL SERVICE RETIREMENT SYSTEM—ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS MATCHING EMPLOYEE DEDUCTIONS AT 6½ PERCENT, PLUS DIRECT APPROPRIATIONS WHEN NEEDED TO MEET BENEFIT PAYMENTS—Continued

[In millions]

Fiscal year	Employee deductions and deposits		Government payments							
			Agency contributions							
	Amount	As percent of payroll	Amount	As percent of payroll	Direct appropriations	Interest at 3½ percent	Total receipts	Disbursements	Balance in fund at end of year	Unfunded liability at end of year
2002	$1,543	6½	$1,528	6½	$4,985		$8,056	$8,056		$138,780
2003	1,543	6½	1,528	6½	5,011		8,082	8,082		138,897
2004	1,543	6½	1,528	6½	5,032		8,103	8,103		138,996
2005	1,543	6½	1,528	6½	5,051		8,122	8,122		139,079
2006	1,543	6½	1,528	6½	5,062		8,133	8,133		139,154
2007	1,543	6½	1,528	6½	5,073		8,144	8,144		139,221
2008	1,543	6½	1,528	6½	5,083		8,154	8,154		139,280
2009	1,543	6½	1,528	6½	5,094		8,165	8,165		139,330
2010	1,543	6½	1,528	6½	5,104		8,175	8,175		139,731
2011	1,543	6½	1,528	6½	5,118		8,189	8,189		139,399
2012	1,543	6½	1,528	6½	5,129		8,200	8,200		139,417
2013	1,543	6½	1,528	6½	5,139		8,210	8,210		139,426
2014	1,543	6½	1,528	6½	5,144		8,215	8,215		139,430
2015 and after	1,543	6½	1,528	6½	[2] 5,148		8,219	8,219		139,430

NOTE

[1] Includes increases in unfunded liability assumed to occur July 1, 1969.
[2] This amount is equal to interest on the then-existing unfunded liability, plus the annual deficiency in normal cost of 1½ percent of payroll.

Assumptions:
(1) Liberalizations effective July 1, 1969, increase normal cost by ½ percent and create unfunded liability of $2 billion.
(2) Pay increases, effective July 1969, create additional unfunded liability of $3.4 billion.
(3) Requirement for annual appropriations to meet requirements of Public Law 87-793 is repealed.

CONCLUSIONS

The preceding table illustrates the magnitude of the problem with which the Congress is faced, and which it is imperative the Congress take prompt and positive action to solve.

The significance of expected continual deficiency increases is that the fund will ultimately be depleted unless action is taken to forestall this contingency. Thereafter, direct appropriations would be required each year, in addition to employee and employing agency contributions, in order to meet benefit payments as they fall due. Unless steps are taken to eliminate, or at least halt the growth of, the unfunded liability, the fund balances will be drawn down and substantial direct appropriations will be required to meet future obligations.

COMMITTEE'S FINANCIAL PROPOSAL

Through the common efforts of the Civil Service Commission, the Bureau of the Budget, the General Accounting Office, and the members of the subcommittee and its parent committee, a modified plan of action was developed which achieves most, if not all, of the objectives sought. Title I of the bill incorporates into the retirement law certain definitive terms essential to the implementation of its subsequent provisions. It contains a three-pronged approach to improved financing, and contemplates a system which will be adequately funded, in lieu of a system which, eventually, would become totally unfunded.

NORMAL COST

Normal cost is that level percentage of annual pay which, invested at interest, is required to cover the cost of benefits earned each year, starting for each employee at the time he is appointed.

Normal cost financing through equal employee-agency contributions is retained with respect to existing benefit structure. The normal cost of present benefits is equivalent to 13.86 percent of payroll, and those proposed in title II of this legislation equal an additional 0.13 percent, a total of 13.99 percent of current payroll. The current normal cost of 13.86 percent is attributable to the numerous liberalizing amendments and salary increases enacted since 1956, for which Congress has failed to proportionately increase contributions, thus resulting in underfinancing by slightly less than 1 percent of payroll.

Because of the inadequacy of current contributions, implementation of normal cost financing of the existing benefit structure requires an immediate 1-percent increase in the combined contribution rate from 13 to 14 percent of payroll (7 percent each for employees and agencies), effective in January 1970. The current congressional employee rate of 6½ percent and matching contribution rate are increased proportionately to 7½ percent, respectively.

FUTURE UNFUNDED LIABILITIES

Unfunded liability is the amounts estimated to be needed to fully finance all benefits due employees and former employees, less money to the credit of the fund and that to be placed in the fund in the future.

The cost of future incremental unfunded liabilities that will result from benefit liberalizations and general salary increases for the active work force, extension of coverage to new groups of employees, and newly authorized annuity increases, are to be fully financed by the Government through direct appropriations to the fund, in equal annual installments, over 30-year periods. The Government would assume full responsibility for additional deficiences thus created and, by amortization, preclude further increases in the existing unfunded liability.

This aspect of the legislation would automatically neutralize the depressing effect on fund balances that would result from future creation of incremental unfunded liabilities, as distinct from growth of the existing unfunded liability which will continue to occur because of loss of interest that would have otherwise been earned. The resulting annual appropriations request submitted to the Congress under this authority would be sufficient to cover all scheduled amounts due for a particular fiscal year. Adherence to this amortization principle will also result in the relatively accurate disclosure of currently accruing retirement costs. For example, an annual payment of $52,500 would be necessary to amortize over 30 years, at 3½-percent interest, any liberalization which would otherwise add $1 million to the unfunded liability.

PRESENT UNFUNDED LIABILITY

While the system's existing unfunded liability, which will have grown from $32 billion in 1961 to $61 billion in 1969, has been affected by numerous liberalizations of benefits, recurring general salary increases, and several automatic cost-of-living adjustments to annuitants, its major growth is attributable to the loss of interest on the unfunded liability currently approximating $2 billion each year.

The bill provides for direct appropriations, under permanent indefinite authority, to be made to meet the Government's obligation for the presently increasing unfunded liability which arises from legislation already enacted, including that created in title II of this legislation, in amounts equivalent to interest on the future accrued deficiencies. This responsibility will be fulfilled beginning on a modest scale at the end of fiscal year 1971. The Secretary of the Treasury will transfer to the fund, from moneys not otherwise appropriated, the following percentages of amounts determined by the Civil Service Commission to be equivalent to interest on the then-existing unfunded accrued liability: 10 percent for 1971; 20 percent for 1972; and an additional 10 percent for each successive fiscal year until, for fiscal year 1980 and thereafter, the amount transferred will be the full equivalent of interest thereon.

Ten percent of the interest (currently evaluated at the yielding rate of 3½ percent) on an unfunded liability of $65 billion will require a transfer of $230 million. A conceivable unfunded liability of $77 billion in 1980 would then become stabilized, and the full amount of interest thereon will approximate $2.7 billion.

The following, table B, illustrates the estimated progress of the fund by the adoption of the preceding funding practices:

TABLE B.—CIVIL SERVICE RETIREMENT SYSTEM

ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS TO COVER (A) 50 PERCENT OF NORMAL COST; (B) 30-YEAR LEVEL AMORTIZATION OF NEWLY CREATED UNFUNDED LIABILITY; (C) INTEREST ON THE UNFUNDED LIABILITY, COMMENCING AT 10 PERCENT OF SUCH INTEREST IN FISCAL YEAR 1971, 20 PERCENT IN FISCAL YEAR 1972, AND INCREASING BY 10 PERCENT EACH YEAR TO 100 PERCENT IN FISCAL YEAR 1980 AND THEREAFTER

[In millions]

Fiscal year	Employee deductions and deposits		Government payments				Interest at 3½ percent	Total receipts	Disbursements	Balance in fund at end of year	Unfunded liability at end of year
			Agency contributions								
	Amount	As percent of payroll	Amount	As percent of payroll	30-year level amortization	Interest on unfunded liability					
1969										$20,616	[1] $63,540
1970	$1,719	7¼	$1,704	7¼	$105		$734	$4,262	$2,933	21,945	65,764
1971	1,719	7¼	1,704	7¼	105	$230	777	4,535	3,150	23,330	67,836
1972	1,719	7¼	1,704	7¼	105	475	821	4,824	3,371	24,783	69,735
1973	1,719	7¼	1,704	7¼	105	732	868	5,128	3,591	26,320	71,444
1974	1,719	7¼	1,704	7¼	105	1,000	918	5,446	3,817	27,949	72,945
1975	1,719	7¼	1,704	7¼	105	1,277	971	5,776	4,043	29,682	74,221
1976	1,719	7¼	1,704	7¼	105	1,559	1,027	6,114	4,299	31,497	75,260
1977	1,719	7¼	1,704	7¼	105	1,844	1,086	6,458	4,548	33,407	76,050
1978	1,719	7¼	1,704	7¼	105	2,129	1,149	6,806	4,788	35,425	76,583
1979	1,719	7¼	1,704	7¼	105	2,412	1,216	7,156	5,023	37,558	76,851
1980	1,719	7¼	1,704	7¼	105	2,690	1,286	7,504	5,250	39,812	76,851
1981	1,719	7¼	1,704	7¼	105	2,690	1,361	7,579	5,485	41,906	76,851
1982	1,719	7¼	1,704	7¼	105	2,690	1,430	7,648	5,707	43,847	76,851
1983	1,719	7¼	1,704	7¼	105	2,690	1,495	7,713	5,915	45,645	76,851
1984	1,719	7¼	1,704	7¼	105	2,690	1,554	7,772	6,108	47,309	76,851
1985	1,719	7¼	1,704	7¼	105	2,690	1,609	7,827	6,287	48,849	76,851
1986	1,719	7¼	1,704	7¼	105	2,690	1,661	7,879	6,438	50,290	76,851
1987	1,719	7¼	1,704	7¼	105	2,690	1,709	7,927	6,581	51,636	76,851
1988	1,719	7¼	1,704	7¼	105	2,690	1,753	7,971	6,718	52,889	76,851
1989	1,719	7¼	1,704	7¼	105	2,690	1,795	8,013	6,847	54,055	76,851
1990	1,719	7¼	1,704	7¼	105	2,690	1,834	8,052	6,970	55,137	76,851
1991	1,719	7¼	1,704	7¼	105	2,690	1,870	8,088	7,070	56,155	76,851
1992	1,719	7¼	1,704	7¼	105	2,690	1,903	8,121	7,172	57,104	76,851
1993	1,719	7¼	1,704	7¼	105	2,690	1,935	8,153	7,273	57,984	76,851
1994	1,719	7¼	1,704	7¼	105	2,690	1,964	8,182	7,375	58,791	76,851
1995	1,719	7¼	1,704	7¼	105	2,690	1,990	8,208	7,478	59,521	76,851

TABLE B.—CIVIL SERVICE RETIREMENT SYSTEM—Continued

ESTIMATED PROGRESS OF THE FUND, WITH GOVERNMENT PAYMENTS TO COVER (A) 50 PERCENT OF NORMAL COST; (B) 30-YEAR LEVEL AMORTIZATION OF NEWLY CREATED UNFUNDED LIABILITY; (C) INTEREST ON THE UNFUNDED LIABILITY, COMMENCING AT 10 PERCENT OF SUCH INTEREST IN FISCAL YEAR 1971, 20 PERCENT IN FISCAL YEAR 1972, AND INCREASING BY 10 PERCENT EACH YEAR TO 100 PERCENT IN FISCAL YEAR 1980 AND THEREAFTER—Continued

[In millions]

Fiscal year	Employee deductions and deposits		Government payments								
			Agency contributions		30-year level amortization	Interest on unfunded liability	Interest at 3½ percent	Total receipts	Disbursements	Balance in fund at end of year	Unfunded liability at end of year
	Amount	As percent of payroll	Amount	As percent of payroll							
1996	$1,719	7¼	$1,704	7¼	$105	$2,690	$2,014	$8,232	$7,614	$60,139	$76,851
1997	1,719	7¼	1,704	7¼	105	2,690	2,033	8,251	7,733	60,657	76,851
1998	1,719	7¼	1,704	7¼	105	2,690	2,049	8,267	7,839	61,085	76,851
1999	1,719	7¼	1,704	7¼	105	2,690	2,063	8,281	7,926	61,440	76,851
2000	1,719	7¼	1,704	7¼		2,690	2,070	8,183	7,999	61,624	76,851
2001	1,719	7¼	1,704	7¼		2,690	2,076	8,189	8,029	61,784	76,851
2002	1,719	7¼	1,704	7¼		2,690	2,081	8,194	8,056	61,922	76,851
2003	1,719	7¼	1,704	7¼		2,690	2,086	8,199	8,082	62,039	76,851
2004	1,719	7¼	1,704	7¼		2,690	2,089	8,202	8,103	62,138	76,851
2005	1,719	7¼	1,704	7¼		2,690	2,093	8,206	8,122	62,222	76,851
2006	1,719	7¼	1,704	7¼		2,690	2,095	8,208	8,133	62,297	76,851
2007	1,719	7¼	1,704	7¼		2,690	2,098	8,211	8,144	62,364	76,851
2008	1,719	7¼	1,704	7¼		2,690	2,100	8,213	8,154	62,423	76,851
2009	1,719	7¼	1,704	7¼		2,690	2,102	8,215	8,165	62,473	76,851
2010	1,719	7¼	1,704	7¼		2,690	2,103	8,216	8,175	62,514	76,851
2011	1,719	7¼	1,704	7¼		2,690	2,105	8,218	8,189	62,543	76,851
2012	1,719	7¼	1,704	7¼		2,690	2,105	8,218	8,200	62,561	76,851
2013	1,719	7¼	1,704	7¼		2,690	2,106	8,219	8,210	62,570	76,851
2014	1,719	7¼	1,704	7¼		2,690	2,106	8,219	8,215	62,574	76,851
2015 and after	1,719	7¼	1,704	7¼		2,690	2,106	8,219	8,219	62,574	76,851

NOTE

[1] Includes increases in unfunded liability assumed to occur July 1, 1969.

Assumptions:

(1) Liberalizations effective July 1, 1969, increase normal cost by ½ percent and create unfunded liability of $2 billion.

(2) Pay increases, effective July 1969, create additional unfunded liability of $3.4 billion.

(3) Requirement for annual appropriations to meet requirement of Public Law 87–793 is repealed.

RECOMMENDATIONS

In the committee's judgment, its recommended approach, while somewhat new in concept and mechanics, is sound and will accomplish the desired results. Its impact on future budgets will be considerable, but that impact will nevertheless be far less drastic than if present funding practices continue unchanged. The longer action is delayed, the larger will be the problem to be dealt with. The committee believes that this bill will provide in full for the permanent financing of the civil service retirement system, so as to assure that there will always be enough money in the fund to permit the payment of all benefits due—in full and on time.

BENEFIT IMPROVEMENTS

AVERAGE PAY

The annuity computation formula is an all-important technique of expressing basic policy decisions as to how much annuity to award specified groups of employees, and how much recognition or weight to give to length of service, level of earnings, and other relevant factors in arriving at the amount of annuity.

Although there is substantial variation in State and local government retirement systems, the most prevalent type of formula arrives at the annuity by multiplying years of service by a specific percentage of the employee's final average salary (commonly the average annual salary for the last or best 5 years or fewer). The resulting annuity is usually in addition to social security benefits.

Under the civil service retirement system, the annuity is based on length of service and level of earnings during a base period—the highest 5 consecutive years, or high-5 average. Percentages of high-5 average pay are first multiplied by years of service, and then added together to produce the annuity. Under the general formula the basic annuity is the sum of: 1½ percent of the high-5 average times the first 5 years of service, 1¾ percent of the high-5 average times the next 5 years of service, and 2 percent times years of service over 10.

There appears to be general acceptance of length of employment and level of earnings as reasonable, broad measures of an employee's contribution to Government service. However, the precise method of computing an annuity from those components has not been found wholly satisfactory either to the employee population or to the Government as an employer. Specifically, difficulties and dissatisfaction have arisen from the use of a 5-year period in determining average base pay, and from the three-step percentage formula.

The high-5 wage base tends to keep employees working beyond the time they otherwise would and should retire. This tendency is strengthened by the regularity with which general pay increases have been enacted in recent years. The highest 5 years of earnings are usually the most recent years of employment. With each additional year of service the high-5 average rises appreciably. Employees postpone retirement in order to improve their average. Up to a point, the escalating effect of the high-5 average is advantageous to the employing agency, encouraging employees to serve out their full productive years with the Government. But, with respect to those who have completed their most productive years, the formula operates to oppose the interest of management. It provides an incentive for employees to postpone retirement indefinitely, irrespective of their performance level.

Substitution of the final salary, of the salary in the last full year of employment, of a high-2 average, or of a high-3 average have all been urged as remedies. Each of these would be more advantageous than the high-5 from the viewpoint of most employees, of course, in that each would produce more favorable annuities.

On balance, it is the committee's judgment that the high-3 average appears to be the best of available alternatives from the standpoint of both the Government and the employees. Normal costs will be increased by 0.07 percent of payroll—from 13.86 percent to 13.93 percent—or $15.4 million annually ($7.7 million each from employees and agencies), but will be fully covered within the "normal cost" financing provision of section 102 of this legislation.

CONGRESSIONAL EMPLOYEE COMPUTATION

S. 2175 of the 83d Congress represented a major effort to deal with the special problems of elective legislative officials and their appointive congressional employees. While the resultant legislation, Public Law 83–303, was a significant milestone in providing a retirement program for congressional employees, it dealt inadequately with the peculiar problems relating to congressional employment (lack of tenure, etc.) by placing a 15-year limitation upon the application of certain of its provisions.

H.R. 9825 would correct this inequity by removing the 15-year limitation and, in recognition thereof, also increases the contribution rate for congressional employees to 7½ percent—the same rate applicable to Members of Congress.

CREDIT FOR UNUSED SICK LEAVE

A continuing concern has been expressed over the years that, while some employees are heavy sick leave users toward the end of their careers, many others retire with substantial balances accumulated by virtue of conscientious usage of the sick leave privilege. While one-third of all retirements are for disability—and such retirees are properly entitled to the full protection provided by their sick leave—the leave problem is brought within the scope of this legislation because the use of sick leave by employees otherwise planning to retire is creating difficulty for Federal agencies.

A recent survey found, for example, that employees retiring from Government service used an average of 40 days of sick leave during their last year of employment. On the other hand, 50 percent of retirees forfeited an average of 44 days (2 months) of unused sick leave.

An employee being carried in a sick leave status prior to retirement is counted toward agency personnel ceilings until his leave expires and he is separated. Meanwhile, the work for which he is responsible must be performed on an interim basis at the cost of an additional position, or it must be absorbed by others, or it goes undone. Additional payroll costs are also incurred as he continues to earn leave—both sick and annual—until his sick leave expires. This problem will become increasingly acute as sick leave balances go higher.

Bills have been introduced over the years to grant a separating employee a lump-sum payment, in full or in part, for his accumulated sick leave account, similar to that which is paid for unused annual leave. While such plans would have the advantage of administrative simplicity, their costs would be excessive.

Recent studies indicate that there is a growing tendency, particularly among State and municipal governments, to provide some form of recognition for unused sick leave at the time an individual retires or dies while employed. In instances where a lump-sum "payoff" is provided, this recognition frequently equals 50 percent of the cash value of the unused leave. Statistics disclose that, since the adoption of such plans, overall sick leave usage has declined from an average of 8 to 7 days yearly. Further, that such a "payoff" is not quite unique is demonstrated by the practice in the Canadian Government's retirement system of continuing to pay a retired employee the equivalent of full salary and annuity benefits for the period equal to his unused sick leave.

The bill provides a limited measure of recompense for unused sick leave by increasing the total actual service performed by an employee (who retires on an immediate annuity or dies leaving a survivor or survivors entitled to annuity benefits) by the length of service representative of the calendar value of his unused sick leave. An employee who has met the age and service requirements for immediate retirement, such as one who is age 55 and has served 30 years, for example, will have his service increased by 1 calendar month for each 22 days of unused leave; or a retired or deceased employee who has accrued sufficient leave to be carried in a paid-leave status for 1 year will be given retirement service credit of 1 calendar year. Consequently, the latter employee's annuity would be computed upon 31 years of service. The additional service so granted, however, shall not be counted in determining average pay or in attaining eligibility for retirement.

This legislation embraces a change in the basic historical philosophy underlying the sick leave system, and grants a limited recognition to those employees who have prudently utilized the sick leave privilege. It is expected that by providing a benefit as an additional incentive to conserve sick leave, there will be extra consideration given by employees, generally, to the use of the leave as it is earned. By crediting such accruals, normal cost will be further increased by 0.06 percent of payroll—from 13.93 to 13.99 percent—or $13.2 million, but will be fully covered within section 102 of this bill.

It is the consensus of the committee that such additional costs will be significantly offset by the savings resulting from a reduction in the number of days of average sick leave usage throughout the Federal service.

COST OF LIVING ADJUSTMENTS

Federal staff retirement systems represent a mixture of insurance and humanitarian principles. In the matter of adjusting annuities after retirement, insurance practice would guarantee that whatever annuity an employee had earned at the time of retirement should be preserved without change. On the other hand, humanitarian considerations would urge that the welfare of the retired person is the major concern, and that annuities should be adjusted to changing needs. The latter theory has prevailed through congressional action; but putting theory into practice has proved difficult.

The level of benefits at the time of retirement is established by a formula based on service and salary. The needs and desires of annuitants are influenced by the cost of living and also the general level of standards of living. When these variables are stable or declining, annuity adjustments are no issue; this was essentially true from 1920 to 1945. When the variables increase, however, problems arise; and that has been the situation continuously since the end of World War II.

The Congress has tried a variety of devices to cope with the problem. After the Civil Service Retirement Act was passed in 1920, civilian salaries were adjusted by the Classification Act of 1923 and a subsequent increase in 1925; but a retirement recomputation principle was never adopted. In 1926 and 1930 new formulas for computing benefits were introduced. Annuities for persons already retired were increased to the levels provided by the new formulas. Under the 1930 act the maximum benefit was $100 a month, and most employees retiring after a full career received this amount. During the 1930's, salary schedules were stable except for temporary flat percentage cuts, and no changes were made in annuity formulas. The cost of living and general standard of living declined. Annuitants were relatively well off and therefore annuity adjustments were no issue.

During World War II, wartime controls ruled out any general action on salaries and annuities alike. However, one change was made: the $100-a-month lid on annuities was removed in favor of a percentage of high–5 average, thus benefiting higher paid employees (which at the time meant those paid over $2,800 a year). In 1946 this provision was also extended to cover employees who had retired before the amendment was passed.

As a result of inflation during and after the war, both active and retired employees found themselves in a new and bleaker economic world. The Consumer Price Index in 1946 stood 40 percent above the 1939 level. In 1951, with a boost from the Korean conflict, it reached 87 percent. Fortunately, civilian production recovered rapidly and action was taken to restore lost values, at least in part.

By 1956, pay schedules for most active employees, and annuities for new retirees, had pretty well caught up with the cost-of-living increase since 1939. However, national productivity still increased and wages and salaries in industry continued upward. Annuitants who had retired before the effective date of the 1956 act received a 10-percent cost-of-living raise. Those retired later received nothing under that act.

In 1962 a major effort was begun to establish annuity adjustments on a stable basis. The act of October 11, 1962, first established the principle that Federal civilian salaries should be comparable with industry salaries for similar work, and new salary schedules took steps toward effecting the principle. The act also established the policy that the purchasing power of annuities would be maintained by adjusting benefits automatically whenever the Consumer Price Index for a year exceeded the base year by 3 percent. At the same time, annuities for 1962 and earlier years were raised by 5 percent; and, to supplement the effect of the 1962 increases on high-5 averages, annuities for 1963 were raised by 4 percent, for 1964 by 3 percent, for 1965 by 2 percent, and for 1966 by 1 percent. Further, the 1952 and 1955 ceilings on annuity increases were abolished, so that all earlier retirees got the benefit of previous increases.

The Consumer Price Index had increased 118 percent from 1939 to 1962, and while the Consumer Price Index formula was a welcome innovation, its operation disappointed annuitants. It fell barely short of forcing an automatic increase in 1965 and left them to wait another year.

The 89th Congress reacted by passing new legislation in 1965. The Consumer Price Index formula was revised to provide automatic increases whenever the Consumer Price Index rose by 3 percent over the previous base period for 3 successive months. The new formula generated an automatic increase of 4.6 percent for all annuitants in 1965. In addition, the Congress provided additional increases of 6½ percent for civil service retirement annuitants who had retired before October 1, 1956, and 1½ percent for those who retired between that date and December 31, 1965—an average of 7½ percent. Subsequent automatic adjustments of 3.9 percent, respectively, have become effective on January 1, 1967, May 1, 1968, and as recently as March 1, 1969.

If the present Consumer Price Index formula had been in effect since 1920, it presumably would have been suspended during the period of wartime inflation as a result of wartime controls. After the war, however, it would have provided a guide more effective than any then available for bringing the value of annuities back to a reasonable relation with the rest of the economy. Once the annuities regained their original purchasing power, the formula would have maintained them by prompt and equitable action when living costs rose further.

While values are in better balance now, on the whole, than at any time in the past, a notable deficiency continues to exist. A period of 5 months elapses between the initial month in which the Consumer Price Index rises by 3 percent over the previous base month and the month in which the cost-of-living adjustment is reflected in the annuity checks. During that elapsed period the Consumer Price Index continues its upward trend, generally attaining a level in excess of 1 percent of the actual percentage rate of adjustment.

In order to correct this serious deficiency in the adjustment formula and thereby compensate retirees and survivor annuitants for the intervening incremental rises in the cost of living, H.R. 17682 will add 1 percent to all future percentage adjustments. For example, if the highest level attained during the 3-month measuring period equals 4 percent, an additional 1 percent will be added thereto and result in an automatic adjustment of 5 percent. Annual costs would be increased by approximately $23 million on each occasion.

REMARRIAGE OF SURVIVOR-ANNUITANTS

Prior to the amendment contained in section 506 of Public Law 89-504, approved July 18, 1966, payment of widows' and widowers' survivor annuities ceased and further entitlement thereto terminated upon remarriage.

The act of July 18, 1966, however, preserved the survivor annuity entitlement of spouses of only those employees who retired from, or died in, active employment thereafter in two respects. In the event of remarriage after reaching age 60, payment of the survivor annuity will continue. In the event of remarriage prior to reaching age 60, the survivor benefit ceases but may be restored upon dissolution of the remarriage.

H.R. 17682 will accord equal treatment to the spouses of employees who retired or died prior to July 18, 1966, provided the remarriage occurs after July 17, 1966. It also contemplates restoring, prospectively, a spouse's annuity which has already been terminated by reason of a remarriage occurring on or after July 58, 1966. It is not proposed, however, to extend similar treatment to a spouse whose remarriage occurred prior to July 18, 1966.

EFFECTIVE DATES

The amendments made by titles I and II become effective on the date of enactment of this legislation. However, certain provisions amended by title I are effective as specified in the sectional analysis.

EXPLANATION OF THE BILL BY SECTIONS

The proposed statutory changes involve amendments to subchapter III of chapter 83 of title 5, United States Code, respecting civil service retirement. Title I proposes a positive plan of action to solve the problem of financing the system by improving past and present inadequate funding practices. Title II amends title 5, United States Code, by proposing certain limited improvements in the benefits structure of the system.

Section 101 amends section 8331 by adding paragraphs (17), (18), and (19). Paragraph (17) defines "normal cost" as the level percentage of the basic pay of all new employees needed throughout their careers to finance the retirement benefits they will earn. Paragraph (18) defines "Fund balance," for purposes of financing, as the par value of securities in which retirement money is invested plus the uninvested cash remaining in the retirement fund. Paragraph (19) defines "unfunded liability" as the estimated amount needed to finance all benefits due present and former employees and members from the fund, less money now in the fund and to be placed in it in the future. These definitive terms are necessary for the implementation of the subsequent provisions of the bill.

Section 102 amends the substance of section 8334(a) in two respects:

(1) It raises the current rate of employee and agency contributions from 6½ percent to 7 percent, and congressional employee and matching contributions from 6½ percent to 7½ percent, effective beginning with the first pay period in January 1970, so as to cover the full normal cost of present benefits and those proposed in title II; and

(2) It also provides for carrying such increased contribution rates into the computation of deposits due for service for which deductions were not currently withheld.

Section 103 amends section 8348 by—

(1) adding a provision making the fund available, subject to annual limitations set by Congress, for administrative expenses incurred by the Commission in connection with operation of the several retirement programs under its jurisdiction. Such expenses are now paid from the fund under authority of appropriation language, which should be replaced by substantive legislation.

(2) striking out present subsections (f) and (g) and adding new subsections (f) and (g), as explained below.

New subsection (f) authorizes appropriations to the fund in equal annual installments over a 30-year period to finance any newly created unfunded liability incurred by the enactment of future legislation, including liberalizations with respect to active employees, extension of coverage to new groups of employees, general salary increases, and any new statutory annuity increases (other than automatic cost-of-living adjustments).

The Government would assume full responsibility for additional deficiencies and, by amortization, preclude further increases in the existing unfunded liability.

New subsection (g) proposes to meet the obligation for the unfunded liability incurred by legislation already enacted through permanent indefinite appropriations beginning on a modest scale at the end of fiscal year 1971, and increasing each year until in fiscal year 1980 and thereafter, the amount transferred from the general revenues of the Treasury to the fund will be the full equivalent of interest on the unfunded liability.

Section 104 is a technical amendment to conform with the financing concept proposed in the preceding sections of title I.

Section 105 would repeal the now unnecessary requirement that the Civil Service Commission submit annual estimates of the appropriations necessary to reimburse the fund for the cost of annuity increases voted in 1958, but not fully covered by appropriations.

Section 201 modifies the average pay computation period from 5 to 3 years.

Section 202 amends section 8334(g) to conform to the intent of new subsection 8348 (m) relating to unused sick leave credit.

Section 203 amends section 8339 in several respects:

(1) It deletes the 15-year limitation imposed under the congressional employee computation formula, and extends to such employees the same computation formula accorded Members of Congress; and

(2) It includes for service computation purposes the length of service represented by the calendar value of unused sick leave to the credit of an employee who retires, or dies in service leaving a spouse or survivor eligible for annuity benefits. Such credit shall not be available for purposes of entitlement or average pay.

Section 204 amends section 8340, the automatic cost-of-living adjustment provision, to add 1 percent to all future percentage adjustments so as to compensate for the 5-month period elapsing between the Consumer Price Index attaining a rise of 3 percent and the subsequent payment of the increase.

Section 205 amends section 8341 so as to extend its application to all survivor annuitants whose remarriages occur on or after July 18, 1966. Rather than the date of retirement or death in service governing, the date of remarriage would govern whether or not the survivor benefit is terminated. Whereas the amendment of July 18, 1966, preserved the survivor annuity entitlement of spouses only of employees who retired or died in active employment thereafter, this provision will accord equal treatment to the widow of a person who retired or died before July 18, 1966, if her remarriage occurs after July 17, 1966. It will also reinstate, on date of enactment, the survivor annuity of a spouse whose benefit has previously been terminated by reason of a remarriage which occurred on or after July 18, 1966.

Section 206 provides for the prospective application of the preceding sections of title II.

Estimated Costs

The Civil Service Commission estimates that present employee-agency contributions of 13 percent of total payroll fall short by 0.86 percent of payroll in covering the normal cost of present benefits. By increasing the combined contribution rate to 14 percent (7 percent each from employees and agencies), annual income to the fund will be increased by approximately $220 million ($110 million from employees and agencies, respectively); $190 million thereof is necessary to cover present normal cost, and $30 million thereof will be sufficient to fully finance the normal cost of benefit liberalizations provided herein.

The Commission estimates that any newly enacted legislation will require an annual payment of $52.5 million to amortize, over 30 years, each $1 billion of unfunded liability incurred.

The Commission estimates that when fully implemented in 1980, the amount to be transferred from the general revenues of the Treasury representing the full equivalent of interest on the then-existent unfunded liability will approximate $2.7 billion annually.

Modification of the average pay period to 3 years will have a normal cost of 0.07 percent of payroll ($15.4 million), but will be fully covered by increasing employee-Government contributions to 14 percent. Present normal cost will thereby be increased from 13.86 13.93 percent of payroll. It will add an estimated $337 million to the existing unfunded liability.

The normal cost of deleting the 15-year limitation on the congressional employee computation is covered by increasing such employees' deductions and matching agency contributions to 7½ percent, respectively. Any increased unfunded liability is deemed to be minimal.

The Commission estimates the normal cost of granting retirement credit for unused sick leave to be 0.06 percent of payroll ($13.2 million), thereby further increasing the total normal cost to 13.99 percent. An estimated $329.5 million would be added to the existing unfunded liability.

It is estimated that an additional 1-percent increase granted annuitants on any future cost-of-living adjustment will have a minimum annual cost of approximately $23 million. Normal costs will not be increased, but the unfunded liability would be increased by $243 million on such occasion.

Estending the application of the remarriage provisions to spouses who remarry subsequent to July 17, 1966, will incur no normal cost, but is estimated to add $150 million to the unfunded liability.

Agency Reports

This legislation is based, in part, on the recommendations of the Civil Service Commission and the General Accounting Office presented during extensive hearings on H.R. 10912 of the 90th Congress and H.R. 770 of the 91st Congress. The initial and interim reports of the Chairmen of the Civil Service Commission, and the reports of the Comptroller General of the United States and the Bureau of the Budget, follow:

U.S. Civil Service Commission,
Washington, D.C., June 8, 1967.

Hon. John W. McCormack,
Speaker of the House of Representatives.

Dear Mr. Speaker: I submit for the consideration of Congress, and urge early action on, a proposal to improve financing and funding of the civil service retirement system.

By the end of this fiscal year, the unfunded liability of the system will top $48 billion. Under present financing practices, the unfunded liability will continue to grow by more than $1.5 billion every year, sometimes much more; disbursements will outstrip receipts by 1974; and by 1987 the present (January 31) $17.1 billion balance will be reduced to nothing. The year-by-year effect of continuing current financing policy is shown in table I attached.

This situation did not develop overnight. It is the product of years of inadequate financing. Employees have always paid their full share of retirement costs as set by law. Government has appropriated substantial sums to the civil service retirement and disability fund from time to time, but it has not contributed, regularly and systematically, in amounts sufficient to meet that portion of accuring costs not covered by employee contributions. (Attachment A summarizes past financing action.) The fund has lost the interest that would otherwise have been earned on investment of the additional contributions, a loss that now amounts to $1.7 billion a year. Successive benefit liberalizations, inadequately financed, have compounded the problem. In its report on valuation of the fund as of June 30, 1965, the Board of Actuaries of the civil service retirement system points out that "before this report is made, the total fund will have fallen even below the liabilities for existing annuitants and separated employees. This means, in effect, that no funds would exist in respect of nonretired persons, either as to their accrued annuities or as to their own accumulated contributions."

The Civil Service Commission strongly urges adoption of a definite program of action to meet this growing financial threat. We recommend a three-step approach: the first to cover normal costs of the system, the second to cover increases in the unfunded liability resulting from legislation enacted in the future, and the third to discharge Government's responsibility for the unfunded liability created by legislation already enacted. The proposal provides that—

1. full normal costs of present benefits and of all liberalizations authorized in the future be paid into the fund currently via matching agency and employee contributions. Contribution rates would be raised, equally for employees and agencies, whenever liberalized eligibility requirements or benefits increase normal costs.

2. all future substantive and pay-raise legislation which would otherwise increase the unfunded liability specifically authorize payments to the fund in accordance with a 30-year schedule written into the retirement law. These payments would begin at a nominal rate the first year; increase in regular amounts, by arithmetic progression, each year thereafter; and cover within a 30-year period the entire cost, including interest, of the unfunded liability created by the legislation. In every case the authorization would be accompanied by an immediate appropriation in the amount called for by the schedule for the first year.

3. permanent, indefinite appropriations be authorized to "peg" the fund at the highest yearend balance it reaches or at employee equity, whichever is greater. Pegging would be accomplished via automatic transfers of moneys from the general revenues of the Government to the trust fund as needed to maintain the latter at the designated level of adequacy. Moneys so transferred would pay underfinanced benefits earned during service already performed and granted by legislation already enacted, but due to be paid in the future.

The recommended approach is one of several different methods which might be adopted. The Board of Actuaries, for example, has repeatedly recommended that Government make direct appropriations equal to the amount necessary, in addition to the contributions of employees and employing agencies, to meet the full normal cost and the amount of accruing interest on the deficiency. The Committee on Retirement Policy for Federal Personnel, created by Congress in 1952 to study all Federal retirement systems, made a similar recommendation, tempered by a recognition that the fiscal situation of the Government might make necessary a gradual rather than immediate approach to that goal. A 1963 administration proposal recommended full funding of all future benefits increases, continuation of matching employee and agency contributions, and supplemental agency contributions gradually increasing to the level at which normal cost plus interest funding would have been attained. Though hearings were held on that proposal (S. 1562), legislation was not enacted by the 88th Congress and, pending completion of a study of the Cabinet Committee on Federal Staff Retirement Systems, no financing recommendation was submitted to the 89th Congress.

The current proposal is the one recommended to the President by the Cabinet Committee and endorsed by him in his March 7, 1966, pay message. If adopted, it would—

require advance provision to meet full estimated costs of retirement, including costs of present benefits, costs of benefits already earned but due to be paid in the future, and costs of benefits resulting from future legislation including general pay increases; ease the impact of these costs on the administrative budget for several years into the future;

increase contribution rates of employees and agencies in January of 1968, and thereafter as required by future liberalizations, to cover normal cost of the benefits in effect. (Normal cost of present benefits is 13.86 percent, nearly 1 percent above current contribution rates; the rate increase will be one-half of 1 percent even if there are no benefit liberalizations);

provide a measure of "braking" effect on pressures for undue liberalizations;

control, and eventually stop, growth of the unfunded liability;

keep fund receipts ahead of disbursements, and prevent depletion of the fund (otherwise expected to occur in 1987);

prevent excessive buildup of the fund in advance of actual need for the money; and

assure payment of earned benefits, in full and on time, without awaiting appropriation action to provide funds for benefits already due.

Table 2 shows progress of the fund under this financing method, assuming present benefit and pay levels.

Draft legislation which would amend the retirement law in accordance with this recommendation is attached, together with a sectional analysis. The draft legislation would also—

make the fund available for payment of the Commission's expenses in connection with administration of retirement laws. Such expenses are now being paid from the fund under appropriation authority enacted last year (Public Law 89–128), but substantive legislation is needed and the House Appropriations Committee urges that we seek it promptly;

merge into one of the civil service and the Foreign Service retirement and disability funds (but not the benefit structure or the administration of the two systems). Both funds are experiencing the same difficulties, for the same reasons. The foreign service retirement and disability system is so small in comparison with that for the civil service system that merging funds could have no significant actuarial effect on financing of the larger system; and repeal certain estimating and other requirements which will no longer be necessary if the proposed financing method is adopted.

The Civil Service Commission believes that administration of the retirement system is one of its most important responsibilities. It is an essential part of a modern employment system designed to attract and retain employees of the caliber required to conduct the complex business of Government. It contributes importantly toward financial security for millions of past, present, and future Government employees and their dependents. There should never exist the slightest doubt of the system's ability to meet its commitments to these poeple. That doubt now exists.

The Government's financial obligation is clear. The Government's recognition of, and action to meet, that obligation is imperative. The situation has been studied intensively during the past few years by the Civil Service Commission, the Bureau of the Budget, the Cabinet Committee on Federal Staff Retirement Systems, and the Board of Actuaries and has been discussed extensively with congressional committees. It is time, now, that Government face the problem realistically and adopt some definite program to meet it.

In our judgment, the recommended approach is sound and will accomplish the required results. Its impact on the administrative budget will be sudden and sharp, beginning around 1975, but that impact will nevertheless be far less drastic than if present financing practices continue unchanged. The longer action is delayed, the larger will be the problem to be dealt with. We strongly urge, therefore, prompt and positive action to solve the problem of retirement financing and funding in such a way as to maintain confidence in the integrity of the system and to assure that there is always enough money in the fund to permit payment of all benefits due, in full and on time.

The Bureau of the Budget advises that enactment of this proposal would be in accord with the President's program.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C. April 24, 1967.

B-130150.

To the President of the Senate and the Speaker of the House of Representatives:

The General Accounting Office has reviewed the present method of financing the civil service retirement system administered by the U.S. Civil Service Commission.

Several different proposals for improving the financing of the system have been made in recent years. The most recent was contained in the report of the Cabinent Committee on Federal Staff Retirement Systems, submitted to the Congress by the President on March 7, 1966 (H. Doc. 402, 89th Cong.).

The General Accounting Office has outlined in this report an alternative approach for financing the civil service retirement system which would provide for—

1. agency contributions and deductions from employees' salaries, in such proportions as may be enacted into law by the Congress, to cover the full normal cost of the system.

2. direct appropriations to the civil service retirement and disability fund to amortize in level amounts over a 20-year period all future increments in the unfunded accrued liability; i.e., the accumulative costs of the system for which funds have not been provided; and

3. direct appropriations to the fund under permanent indefinite authority in annual amounts equivalent to interest on the unfunded accrued liability which is expected to be about $50.3 billion at June 30, 1967, if restrictions on the payment of certain benefits are removed.

An analysis and comparison of the effect of the Cabinet Committee recommendations and the alternative approach are presented in the report.

A major difference between the two proposed methods of financing the system is that the Cabinet Committee recommendations would postpone indefinitely recognition in the Government's administrative budget of some $36 billion in future costs of the civil service retirement system—measured by the difference between the amount of the unfunded accrued liability of about $50.3 billion expected to exist as of June 30, 1967, and the amount of the unfunded accrued liability of approximately $86 billion which would exist in the year 2015 or thereabouts and which would become stabilized at that time and at that amount under the Cabinet Committee's plan.

We believe that, in furtherance of the objective of prudent management of the Government's financial affairs, a consistent method of financing the system should be established that will recognize and provide for all costs of maintaining the system from year to year as the costs are incurred. This objective would be attained under our alternative approach and the unfunded accrued liability would become stabilized immediately.

There are many approaches that can be taken to improve the financing of the civil service retirement system, two of which are explained in this report. It is our view that, regardless of the approach the Congress may choose to follow, it is important that a definite plan be adopted to improve the financing of the system at an early date.

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of the Treasury; and the Chairman, U.S. Civil Service Commission.

ELMER B. STAATS,
Comptroller General of the United States.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 22, 1968.

Hon. DOMINICK V. DANIELS,
Chairman, Subcommittee on Retirement, Insurance, and Health Benefits, Committee on Post Office and Civil Service, House of Representatives.

DEAR MR. DANIELS: The plan for improving the financing of the civil service retirement system which is described briefly in this letter is acceptable to the Comptroller General, the Bureau of the Budget, and the Civil Service Commission. Draft language to revise your bill, H.R. 10912, to put the three steps of this plan into effect is enclosed.

Step I.—Financing normal cost

Employees and their agencies will share equally, via employee deductions and matching agency contributions, the full normal cost of present benefits and of all future liberalizations authorized by Congress.

The Commission will determine when an adjustment in the percentage of deductions and contributions is necessary to meet full normal cost, and will notify the Vice President and the Speaker of the House of its proposed adjustment. The new percentages will go into effect the first pay period which begins at least 60 days of continuous session of Congress after the notice, unless before then either the House or the Senate has passed a bill which provides a different adjustment or has passed a resolution which specifically disapproves the adjustment proposed by the Commission.

Step II.—Financing newly created unfunded liability

Future legislation which creates additional unfunded liability will include authorization for appropriations to the retirement fund to finance the newly created liability, in equal annual installments over a 30-year period, with interest at the rate used in the most recent valuation of the system. The first installment is due as of the effective date of the statute which creates the liability.

Step III.—Financing the unfunded liability attributable to existing statutes

The Government assumes full responsibility for unfunded liability which arises from legislation already enacted. It will meet this obligation through permanent indefinite appropriations beginning on a modest scale at the end of fiscal year 1971 and increasing each year for the following 9 years. The Secretary of the Treasury will transfer to the retirement fund the following percentages of amounts equivalent to interest on the unfunded liability: 10 percent for 1971; 20 percent for 1972; and an additional 10 percent for each following year until, for the fiscal year 1980 and each year thereafter, the amount transferred will be the full equivalent of interest on the unfunded liability.

We have prepared the enclosed two tables to show the estimated progress of the retirement fund under present financing and under the plan described in this letter. For purely illustrative purposes we have assumed, for both table A and table B, legislation effective July 1, 1969, which increases normal cost by one-half percent and creates additional unfunded liability of $2 billion.

If enacted, this plan will provide in full for the permanent financing of the civil service retirement system.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., March 14, 1969.

B-130150.

Hon. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: We refer to your letter of January 13, 1969, requesting our report upon H.R. 770 which would amend the retirement provisions contained in chapter 83 of title 5, United States Code. The bill is designed primarily to improve financing of the civil service retirement system but also it would liberalize certain employee retirement benefits.

We are firmly convinced that the prudent management of the Government's financial affairs requires the adoption of a sound plan to provide permanent financing of the civil service retirement system. Section 102 of the bill contains the method of financing agreed upon by the Civil Service Commission and our Office which was submitted to the Chairman of the Subcommittee on Retirement, Insurance, and Health Benefits, House of Representatives, by letter of the Chairman of the Civil Service Commission, dated March 22, 1968, and which was included in H.R. 17682, 90th Congress, which passed the House of Representatives on October 1, 1968,

Section 103 of the bill contains additional financing provisions which previously had been included in H.R. 17682, 90th Congress. These provisions were objected to by the Civil Service Commission as creating unnecessary complications in administration of the financing of the system and because they did not strengthen the proposals for financing the system which were set forth in section 102 of H.R. 17682 which proposals are substantially the same as those appearing in section 102 of H.R. 770.

Section 201 of the bill provides for the inclusion of overtime and other premium compensation as "basic pay." Apparently this is done for the purpose of increasing the high average salary upon which annuities are computed. However, as we previously pointed out in our report of May 27, 1968, B-130150, on H.R. 16288, 90th Congress, whether the inclusion of overtime and other premium pay as "basic pay" will result in higher retirement annuities for retired employees depends upon whether such overtime or other premium pay was earned during the period upon which the employees' high average salaries were computed.

Section 202 would authorize the computation of annuities based on an average of the highest 3 consecutive years of pay rather than an average of the highest 5 consecutive years of pay as provided in the present law. Whether this benefit should be granted at the present time is a matter of policy for determination by the Congress and we offer no recommendation with respect thereto.

Section 204 of the bill would authorize increasing an employee's length of service for retirement purposes by the amount of sick leave to his credit on the date of his final separation from service. The credit would be permitted even though it might result in increasing the annuity in excess of the 80-percent limitation contained in 5 U.S.C. 8339(e). In connection with the question of the propriety of granting this benefit we have, in commenting upon previous bills to accomplish such purpose, expressed doubt whether a premium should be granted an employee in the form of increased retirement credit because he enjoyed good health during his Government career and thereby accumulated large amounts of sick leave. In this connection, it should be noted that while the granting of retirement credit for sick leave may give an employee an incentive to accumulate as much sick leave as possible, it also may result in his continuing on duty when he should be at home because his presence on the job may endanger the health of fellow employees.

Section 205 of the bill would add an extra 1 percent to each cost-of-living adjustment resulting from an increase in the Consumer Price Index. In House Report 1586 on H.R. 17682, 90th Congress, it was noted that any such added increase is designed to compensate an annuitant for the 5-month period elapsing between the Consumer Price Index attaining a rise of 3 percent and the subsequent payment of the increase. In considering such a benefit it must be remembered that the extra 1-percent increase would be received by the annuitant indefinitely and would become part of the base subsequently used to arrive at both the next cost-of-living increase and the next extra 1-percent increase. As a result, there could be a spiraling effect which might cause annuities to be increased to a level that would be higher than could be justified by the related cost-of-living index.

Section 206 of the bill would grant widows and widowers whose annuities were terminated because of remarriage prior to enactment of Public Law 89-504, approved July 18, 1966, the same entitlement to have their annuities restored upon divorce, annulment, or death of the spouse whom they remarried that were granted prospectively to annuitants losing their annuities because of remarriages occurring after enactment of Public Law 89-504. While enactment of section 206 of the bill also involves a matter of policy for determination by the Congress, we invite attention to the fact that the same justification for liberalizing future retirement benefits (including survivor benefits) as a means of attracting and retaining the services of competent Government personnel would not be present as a basis for liberalizing retroactively the benefits previously vested by virtue of death or retirement of a Government employee.

Finally, we call attention to the report of the Chairman of the Civil Service Commission upon H.R. 17682, which is printed on pages 30-32 of House Report 1586 dated June 26, 1968. In the third from last paragraph of the Commission's report, it was pointed out that the retirement liberalizations contained in H.R. 17682, 90th Congress, which are identical with those appearing in H.R. 770, would create an estimated additional unfunded liability of $3.3 billion (including the added 1 percent for the first annuity increase only) which we understand would have to be financed in the manner provided for in the bill.

Sincerely yours,

ROBERT F. KELLER,
Acting Comptroller General of the United States.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 18, 1969.

Hon. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: This report is made in response to your request of January 13, 1969, for the Commission's views on H.R. 770, a bill to amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes.

Title I of the bill would strengthen financing and funding of the retirement system, an objective which the Civil Service Commission has sought for years and which continues to be of major concern to us. Our annuitants now number nearly 900,000, and we are paying out slightly more than $2 billion a year in monthly benefit checks. The size of this system and the critical reliance placed on it by its members—present and future—are such that Government can no longer afford the hit-and-miss financing methods of the past. Those methods are detailed in House Report 1586 accompaning H.R. 17682 (90th Congress), as are the results to be expected if present financing continues (table A in the report) and if the financing methods recommended to the Congress last year are adopted (table B). While the figures in the tables have not been updated, their illustration of the principle and the problem are still valid.

The fund's deficit as of June 30, 1969, will be $57.7 billion. Within 5 years we will be paying out more than present financing methods bring in. Within 17 years the balance will have dropped from the present $19.4 billion to zero. Special appropriations of $3 to over $4 billion—in addition to the matching employee-agency contributions—will then be required every year in order to make current payments. Unless such appropriations are made in full, on time, every year, the Commission will be unable to pay retired employees and their survivors the benefits they have earned through years of service and are counting on for support in their old age. Nonreceipt, or even delayed receipt, of their annuity checks would be extremely serious for thousands of these elderly people, many of whom have no other source of income. We would be delinquent in our responsibility if we did not renew and reinforce our recommendation for timely and effective congressional action to assure that such a situation does not occur.

We, therefore, strongly support those provisions of title I which would require:

1. That employees and agencies meet full normal costs of present and newly authorized benefits through matching contributions.
2. That Government pay costs of every increase in unfunded liability created by new legislation, through equal annual installments over a 30-year period.
3. That Government meet its responsibility for the unfunded liability due to already-enacted legislation, through gradually increasing permanent indefinite appropriations which after 10 years would equal interest on the unfunded liability.

These provisions, to which the Civil Service Commission, the Bureau of the Budget, and the General Accounting Office agreed last year before House passage of H.R. 17682, still seem highly desirable to us, and we recommend their early enactment.

To cover the full normal cost of present benefits, section 102(1) of H.R. 770 would increase deduction rates for employees generally from 6½ to 7 percent of pay. Member deduction rates, already at 7½ percent, would not be changed. Under section 102(2), the Commission would notify the Congress of any future increase in contribution rates required to cover full normal costs, and the higher rates would become effective following 90 days of continuous session of Congress after the notice, unless either the House or the Senate before that time passed a resolution specifically disapproving the proposed adjustment or a bill authorizing a different adjustment. We agree with these provisions.

We suggest deletion of those provisions of title I that would (*a*) make payment of annuity increases after the first full fiscal year contingent upon congressional appropriation of the necessary additional amounts, (*b*) require the Secretary of Defense to transfer to the retirement fund each year an amount equal to annuity disbursements attributable to military service, and (*c*) require each agency to transfer to the fund an amount equal to the value of unused sick leave for an employee who retires or who dies in service leaving a qualified survivor.

Provision (*a*) would not only create unnecessary complications, but could also prove embarrassing both to Congress and to the Commission if payment of an authorized benefit—one that had been paid in previous years—had to be stopped because of later refusal of, or delay in making, the required appropriation. Provisions (*b*) and (*c*) would in no way reduce Government's retirement expenditures; they would only increase the number of appropriations required to authorize those expenditures, introducing administrative complications without changing the end financing result. Since the basic proposal (the provisions numbered 1, 2, and 3 above) would provide full permanent financing, these additional measures are superfluous and no good purpose would be served by their enactment.

Title II would liberalize existing benefits in the following ways:

1. Gross earnings, rather than basic pay, would be used in determining retirement benefits and deductions.
2. Average salary for annuity computation purposes would be determined on the basis of 3 rather than 5 years.
3. Unused sick leave would be added to the actual length of service in computing annuities.
4. An extra 1 percent would be added to each annuity increase resulting from changes in the Consumer Price Index.
5. The July 18, 1966, amendments which permit continuation of annuity when a surviving spouse remarries after reaching age 60, and restoration of annuity upon termination of a remarriage which occurred before age 60, would be made applicable to all cases in which remarriage occurs after July 17, 1966.

These liberalizations—including the added 1 percent for the first cost-of-living annuity increase, but not for succeeding ones—would raise the normal cost of the system from its present 13.86 percent of payroll to 13.99 percent and would create an additional $3.7 billion in unfunded liability. Since there has been no demonstrated urgent need for these benefit liberalizations, which are clearly secondary in importance to the main objective of improving financing, I recommend that they not be included in this particular bill.

The problem of retirement financing has been exhaustively studied and discussed for more than 6 years now. It is clear that present financing practices cannot assure full and timely payment of the benefits already earned. Neither can they allay the fears and restore the confidence of the thousands of elderly people who depend upon monthly payments from the retirement system for the necessities of their day-to-day living. We urge early action to provide the legislation that is needed.

In summary, if the bill is amended to delete those financing provisions which we consider unnecessary and to delete the liberalizing amendments proposed in title II, we strongly urge enactment of H.R. 770.

If further consideration is given the bill, there are a number of technical changes that should be made in the bill. The Commission will be happy to provide technical assistance in this regard at your request.

The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the submission of this report.

By direction of the Commission.

Sincerely yours,

ROBERT E. HAMPTON,
Chairman.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., March 19, 1968.

Hon. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to the committee's request for the views of the Bureau of the Budget on H.R. 770, to amend subchapter III of chapter 83 of title 5, United States Code, relating to civil service retirement, and for other purposes.

Title I of the bill is designed to strengthen the financing and funding of the retirement system. This Bureau fully supports those provisions of title I which would require that:

1. Employees and agencies meet full normal costs of present and newly authorized benefits through matching deductions and contributions.
2. The Government amortizea ll future increases in unfunded liability created by legislation through equal annual installments over a 30-year period.
3. The Government meet its responsibility for the existing unfunded liability through gradually increasing permanent indefinite appropriations, which after 10 years would equal interest on the unfunded liability.

Other provisions of title I would—

1. Make payment of annuity increases after the first full fiscal year contingent upon congressional appropriation of additional moneys necessary to cover such increases.
2. Require the Secretary of Defense to transfer to the retirement fund each year an amount equal to annuity disbursements attributable to military service for which free credit has been allowed.

3. Require each agency to transfer to the fund an amount equal to the value of unused sick leave for each employee who retires or who dies in service leaving a qualified survivor.

These three provisions would not enhance the adequacy of the financing arrangements provided by the first three basic provisions cited above. On the contrary, they would create unnecessary administrative complications and additional recordkeeping transactions in all of the individual agencies. Accordingly, we recommend their deletion.

Title II of H.R. 770 would provide a number of liberalizations primarily designed to enhance the value of annuities earned by long-service employees. In the aggregate, they would have the effect of increasing the unfunded liability by more than $3.7 billion. We believe it would be incongruous to include in a bill designed to halt the growth of the unfunded liability of the retirement system, provisions which would of themselves increase the existing unfunded liability by more than 6 percent.

The present benefit formula provides, for career employees, annuities that are already generous in comparison with those offered by most private retirement systems. Furthermore, the pay increase scheduled for July 1969 will have the effect of substantially increasing the value of all future annuities. This is evidenced by the fact that it will add $3.4 billion to the unfunded liability.

Therefore, we recommend that the liberalizations contained in title II be deleted.

In recommending deletion of these liberalizations, the Bureau is not taking the position that any further liberalizations are undesirable. On the contrary, we believe that the present benefits are deficient in several respects. For example, under present arrangements many employees who leave Government service prior to qualifying for an immediate annuity derive no benefit whatsoever from the system. Employees who leave before completing 5 years' service are entitled only to a refund of their contributions. Many employees who serve up to 20 years take a refund instead of the right to a deferred annuity at age 62. Furthermore, survivors of employees who die even after as much as 20 years of service receive smaller benefits than would have been payable if the service had been under the social security system.

At the request of the House Committee on Ways and Means, the Social Security Administration has submitted a report recommending several measures which would correct these inadequacies of the civil service retirement system. Specifically, it proposes:

1. Where there is no benefit eligibility under the (Federal) retirement system when a worker dies, becomes disabled, or retires, credit would be transferred from the staff-retirement system to social security.

2. Where there is benefit eligibility under the retirement system, the staff-retirement system benefits (or if social security benefits based on other work are also payable, the staff-retirement system and social security benefits together) would be guaranteed to be at least as high as if all employment subject to the staff-retirement system had been covered by social security.

We believe that enactment of the measures proposed in the social security report would correct fundamental weaknesses of the civil service benefit structure and, therefore, should have a higher priority claim on Federal compensation expenditures than liberalizations of the kind contained in title II.

The social security report also suggests that Federal employees be brought under the medicare program. At age 65 medicare benefits would be substituted for those now provided by the various Federal employee health benefits plans. Since medicare is a prepayment plan, premium charges for health care after age 65 would be considerably less than those now paid by retired Federal employees. Furthermore, the premiums now paid by active employees for health benefits could be reduced or future increases minimized.

In summary, the Bureau of the Budget believes that retirement legislation enacted this year should be confined to improving the financing and funding of the retirement system, and recommends that H.R. 970 be amended accordingly.

Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 5 OF THE UNITED STATES CODE

* * * * * * *

§ 1308. Annual reports

* * * * * * *

(c) The Commission shall publish an annual report on the operation of subchapter III of chapter 83 of this title, including a statement concerning the status of the Civil Service Retirement and Disability Fund [on a normal cost plus interest basis].

* * * * * * *

§ 8331. Definitions

For the purposes of this subchapter—

* * * * * * *

(4) "average pay" means the largest annual rate resulting from averaging an employee's or Member's rates of basic pay in effect—

(A) over any [5] *3* consecutive years of creditable service; or

(B) at a Member's option over all periods of Member service after August 2, 1946, used in the computation of an annuity under this subchapter;

with each rate weighted by the time it was in effect;

* * * * * * *

(15) "price index" means the Consumer Price Index (all items—United States city average) published monthly by the Bureau of Labor Statistics; [and]

(16) "base month" means the month for which the price index showed a percent rise forming the basis for a cost-of-living annuity increase[.]*;*

(17) "normal cost" means the entry-age normal cost computed by the Civil Service Commission in accordance with generally accepted actuarial practice and expressed as a level percentage of aggregate basic pay;

(18) "Fund balance" means the sum of—

(A) the investments of the Fund calculated at par value; and

(B) the cash balance of the Fund on the books of the Treasury; and

(19) "unfunded liability" means the estimated excess of the present value of all benefits payable from the Fund to employees and Members, and former employees and Members, subject to this subchapter, and to their survivors, over the sum of—

(A) the present value of deductions to be withheld from the future basic pay of employees and Members currently subject to this subchapter and of future agency contributions to be made in their behalf; plus

(B) the present value of Government payments to the Fund under section 8348(f) of this title; plus

(C) the Fund balance as of the date the unfunded liability is determined.

* * * * * * *

§ 8334. Deductions, contributions, and deposits

(a) *(1)* The employing agency shall deduct and withhold [6½] *7* percent of the basic pay of an employee and 7½ percent of the basic pay of *a Congressional employee and* a Member [, and an]. *An* equal amount shall be contributed from the appropriation or fund used to pay the employee or, in the case of an elected official, from an appropriation or fund available for payment of other salaries of the same office or establishment. When an employee in the legislative branch is paid by the Clerk of the House of Representatives, the Clerk may pay from the contingent fund of the House the contribution that otherwise would be contributed from the appropriation or fund used to pay the employee.

(2) The amounts so deducted and withheld, together with the amounts so contributed, shall be deposited in the Treasury of the United States to the credit of the Fund under such procedures as the Comptroller General of the United States may prescribe. Deposits made by an employee or Member [under this section] also shall be credited to the Fund.

* * * * * * *

(c) Each employee or Member credited with civilian service after July 31, 1920, for which retirement deductions or deposits have not been made, may deposit with interest an amount equal to the following percentages of his basic pay received for that service:

	Percentage of basic pay	Service period
Employee	2½	August 1, 1920, to June 30, 1926.
	3½	July 1, 1926, to June 30, 1942.
	5	July 1, 1942, to June 30, 1948.
	6	July 1, 1948, to October 31, 1956.
	6½	[After October 31, 1956.] *November 1, 1956, to December 31, 1969.*
	7	*After December 31, 1969.*
Member or employee for Congressional employee service	*2½*	*August 1, 1920, to June 30, 1926.*
	3½	*July 1, 1926, to June 30, 1942.*
	5	*July 1, 1942, to June 30, 1948.*
	6	*July 1, 1948, to October 31, 1956.*
	6½	*November 1, 1956, to December 31, 1969.*
	7½	*After December 31, 1969.*
Member for Member service	2½	August 1, 1920, to June 30, 1926.
	3½	July 1, 1926, to June 30, 1942.
	5	July 1, 1942, to August 1, 1946.
	6	August 2, 1946, to October 31, 1956.
	7½	After October 31, 1956.

Notwithstanding the foregoing provisions of this subsection, the deposit with respect to a period of service referred to in section 8332(b)(6) [which was performed prior to the effective date of the National Guard Technicians Act of 1968] *of this title performed before January 1, 1969*, shall be an amount equal to 55 [per centum] *percent* of a deposit computed in accordance with such provisions.

* * * * * * *

(g) Deposit may not be required for—

(1) service before August 1, 1920;

(2) military service;

(3) service for the Panama Railroad Company before January 1, 1924; [or]

(4) service performed before January 1, 1950, by natives of the Pribilof Islands in the taking and curing of fur seal skins and other activities in connection with the administration of Pribilof Islands[.] *; or*

(5) days of unused sick leave credited under section 8339(m) of this title.

* * * * * * *

§ 8339. Computation of annuity

* * * * * * *

(b) The annuity of a Congressional employee, or former Congressional employee, retiring under this subchapter is computed under subsection (a) of this section, except, if he has had—

(1) at least 5 years' service as a Congressional employee or Member or any combination thereof; and

(2) deductions withheld from his pay or has made deposit covering his last 5 years of civilian service;

his annuity is computed, with respect to [so much of his service as a Congressional employee and his military service as does not exceed a total of 15 years] *his service as Congressional employee, his military service not exceeding 5 years*, and any Member service, by multiplying 2½ percent of his average pay by the years of that service.

(c) The annuity of a Member, or former Member with title to Member annuity, retiring under this subchapter is computed under subsection (a) of this section, except, if he has had at least 5 years, service as a Member or Congressional employee or any combination thereof, his annuity is computed with respect to—

(1) his service as a Member and so much of his military service as is creditable for the purpose of this paragraph; and

(2) [so much of] his Congressional employee service [as does not exceed 15 years];

by multiplying 2½ percent of his average pay by the years of that service.

* * * * * * *

(m) In computing any annuity under subsections (a)–(d) of this section, the total service of an employee who retires on an immediate annuity or dies leaving a survivor or survivors entitled to annuity includes, without regard to the limitations imposed by subsection (e) of this section, the days of unused sick leave to his credit, except that these days will not be counted in determining average pay or annuity eligibility under this subchapter.

§ 8340. Cost-of-living adjustment of annuities

* * * * * * *

(b) Each month the Commission shall determine the percent change in the price index. Effective the first day of the third month that begins after the price index change equals a rise of at least 3 percent for 3 consecutive months over the price index for the base month, each annuity payable from the Fund having a commencing date not later than that effective date shall be increased by *1 percent plus* the percent rise in the price index (calculated on the highest level of the price index during the 3 consecutive months) adjusted to the nearest 1/10 of 1 percent.

* * * * * * *

§ 8348. Civil Service Retirement and Disability Fund

(a) There is a Civil Service Retirement and Disability Fund. The Fund—

(1) is appropriated for *the* payment of—

[(1)] *(A)* benefits as provided by this subchapter; and

[(2)] *(B)* administrative expenses incurred by the Civil Service Commission in placing in effect each annuity adjustment granted under section 8340 of this title[.]*; and*

(2) is made available, subject to such annual limitation as the Congress may prescribe, for any expenses incurred by the Commission in connection with the administration of this chapter and other retirement and annuity statutes.

* * * * * * *

[(f) The Commission shall submit estimates of the appropriations necessary to finance the Fund on a normal cost plus interest basis and to carry out this subchapter.

[(g) Money now or hereafter contained in the Fund may not be used to pay an increase in annuity benefits or a new annuity benefit under this subchapter or an earlier statute which is authorized by amendment thereof until and unless an appropriation is made to the Fund in an amount which the Commission estimates to be sufficient to prevent an immediate increase in the unfunded accrued liability of the Fund.]

(f) Any statute which authorizes—

(1) new or liberalized benefits payable from the Fund, including annuity increases other than under section 8340 of this title;

(2) extension of the coverage of this subchapter to new groups of employees; or

(3) increases in pay in which benefits are computed;

is deemed to authorize appropriations to the Fund to finance the unfunded liability created by that statute, in equal annual installments over the 30-year period beginning at the end of the fiscal year in which the statute is enacted, with interest computed at the rate used in the then most recent valuation of the Civil Service Retirement System and with the first payment thereof due as of the end of the fiscal year in which the statute is enacted.

(g) At the end of each fiscal year, the Commission shall notify the Secretary of the Treasury of the amount equivalent to interest on the unfunded liability computed for that year at the interest rate used in the then most recent valuation of the System. Before closing the accounts for each fiscal year, the Secretary shall credit to the Fund, as a Government contribution, out of any money in the Treasury of the United States not otherwise appropriated, the following percentages of the amounts equivalent to interest on the unfunded liability: 10 percent for 1971; 20 percent for 1972; 30 percent for 1973; 40 percent for 1974; 50 percent for 1975; 60 percent for 1976; 70 percent for 1977; 80 percent for 1978; 90 percent for 1979; and 100 percent for 1980 and for each fiscal year therafter. The Commission shall report to the President and to the Congress the sums credited to the Fund under this subsection.

PROVISO UNDER THE HEADING "CIVIL SERVICE COMMISSION" AND UNDER THE SUBHEADING "PAYMENT TO CIVIL SERVICE RETIREMENT AND DISABILITY FUND" IN TITLE I OF THE INDEPENDENT OFFICES APPROPRIATION ACT, 1962 (75 Stat. 345; Public Law 87-141)

Payment to Civil Service Retirement and Disability Fund

For financing the annuity benefits and increases provided by the Act of June 25, 1958 (72 Stat. 218), $44 637,000, to be credited to the civil service retirement and disability fund [: *Provided*, That the Civil Service Commission shall include annually, in its estimates to the Bureau of the Budget, estimates of the appropriations necessary to reimburse the civil service retirement and disability fund for the amounts paid out of the fund by reason of the enactment of Public Law 85-465, and the Bureau of the Budget shall submit such estimates annually to the Congress].

SUPPLEMENTAL VIEWS OF REPRESENTATIVE H.R. GROSS WITH RESPECT TO H.R. 9825

The proponents of H.R. 9825 proudly point to the retirement fund financing provisions in title I of the bill, but immediately ignore them by providing that none of the liberalizations provided in title II shall be subject to section 103(a)(2) which establishes that the Government shall pay the costs of every future increase in the unfunded liability of the retirement fund by equal annual appropriations over a 30-year period.

I raised this question during committee deliberations on the bill and it was agreed that this was exactly what H.R. 9825 does.

This simply means that in H.R. 9825, as now written, the Congress is asked to adopt a laudable principle providing authorization for appropriations to finance liabilities in the retirement fund created by future legislation; and at the same time Congress is asked to exempt from such principle the future liabilities created by the liberalizations contained in title II of this bill.

The following table shows the benefits contained in this legislation and the increase in unfunded liabilities created in the retirement fund which are not subject to the 30-year amortization financing provision of title I of the bill:

Benefit:	*Increase in unfounded liability (Million)*
High 3-year average	$337
Sick leave credit	329. 5
Survivor annuity	150
1 percent cost of living	243

In addition, the $3.4 billion increase in the unfunded liability of the retirement fund, which will be created by the pay increase which becomes effective in July 1969, is not subject to the financing provisions of title I. This makes a total of $4,459,500,000 of future increases in the unfunded liability of the retirement fund, which this legislation, as now written, exempts from the financing provisions of title I of the bill.

Accordingly, I wrote to the Director of the Bureau of the Budget, to inquire whether the administration supports the concept that the cost of the new liberalizations in this retirement bill, as well as the retirement cost of the July 1969 increase in Federal employees salaries should be excluded from the provisions of H.R. 9825 establishing that unfunded liabilities of the retirement fund created by future liberalizations should be funded over a 30-year period in equal annual appropriations.

The Bureau of the Budget has responded to my letter to the effect that the administration supports an amendment to H.R. 9825, which I shall offer, to amortize, under that provision of title I, the costs of future increases in retirement fund liabilities created by title II of this bill, plus the retirement costs of the pay raises which will be effective in July 1969.

In response to my letter Mr. Robert P. Mayo, Director of the Bureau of the Budget replied, on April 22, 1969, in part as follows:

"In your letter of April 17, 1969, you ask if the administration will support an amendment to H.R. 9825 when it is considered on the floor of the House of Representatives to the effect that the Government should pay the cost of every increase in unfunded liability created in the future, including the four liberalizations contained in H.R. 9825.

"This administration is thoroughly in accord with the objective of fiscal responsibility which your proposed amendment is intended to achieve."

SUPPLEMENTAL VIEWS OF CONGRESSMAN EDWARD J. DERWINSKI ON H.R. 9825

The intention of this statement is to throw some light on certain provisions of H.R. 9825 which I believe need amplification. I did not oppose the bill in committee, casting my vote to bring this legislation to the House Floor for consideration.

First of all, I want to call attention to sections 202 and 203 of this bill under which retirement service credit will be allowed for the calendar value of unused sick leave of Federal employees. This is a departure from the basic concept that has governed the use of sick leave since its inception in the Federal system, and I hope each Member of the House is aware of the precedent established by this legislation.

The basis for sick leave under our system is to insure against the loss of income during periods of illness. All employees have the same right to draw upon sick leave if necessary, but nothing is owed the employee who enjoys good health and does not have to draw upon his reserve.

Proponents say that this provision in the bill will result in a lesser use of sick leave by employees, with a resultant saving to the Government.

This implies that the use of sick leave is being abused, or that we wish to encourage employees to come to work when they are sick.

If the former is true, then administrative action is suggested to curb the abuses. I would be surprised if Congress wishes to accomplish the latter.

Under Civil Service regulations, an agency shall grant sick leave to an employee when the employee—

(*a*) Receives medical, dental, or optical examination or treatment;

(*b*) Is incapacitated for the performance of duties by sickness, injury, or pregnancy and confinement;

(*c*) Is required to give care and attendance to a member of his immediate family who is afflicted with a contagious disease; or

(*d*) Would jeopardize the health of others by his presence at his post of duty because of exposure to a contagious disease.

If an employee takes sick leave for reasons *other* than those listed, he is abusing the privilege and violating the regulations. If we, through this legislation, encourage him to come to work under the conditions listed above, we are doing neither him nor his coworkers a favor.

I hope that the House will give careful consideration to the sick leave provisions in H.R. 9825 and will carefully weigh the consequences.

Section 203 of this legislation also removes the 15-year limitation in the formula for calculating annuities for Congressional employees.

Presently, the retirement annuity of these employees is determined by multiplying average salary times 2½ percent times years of service up to 15 years. For service over 15 years, a lesser percentage is used.

There are a number of legitimate questions and a basic precedent involved here. I feel those Congressional employees we think of in the usual sense are most deserving of this change. These employees are on the staffs of Members or committees or joint committees whose careers are pretty much alined with a Member of Congress and under these circumstances are uncertain. However, there are other "Congressional Employees" by definition. These include the capitol police, employees of the Architect of the Capitol, and employees of the botanical garden. Extending this retirement privilege to all Hill employees should raise a question in our minds.

The precedent I refer to is an obvious one in that having extended the formula for annuities for congressional employees a demand will present itself for all Federal employees. In committee, proponents of this section stated flatly that they did not feel they were establishing a precedent and that the lack of tenure and the lack of fringe benefits affecting congressional employees was such that this favorable retirement provision was merely a delayed step toward general equality of benefits.

It is my hope that we will write a clear legislative recommendation on these points I have raised as well as other questions that may come up on the floor.

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